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CENTRAL INTELLIGENCE AGENCY

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INFORMATION REPORT

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COUNTRY Austria/USSR

DATE DISTR. 10 February 1949

SUBJECT Status of GEM and USIA Equipment in Soviet-controlled Plants in Austria

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25X1A

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SUPPLEMENT TO REPORT NO.

25X1A

1. A report of 18 January 1949 states that, according to Startsev's secretary, Startsev, technical and administrative deputy to Malavin, and Shevchenko, acting deputy of the Technical Branch of USIA, have recently been inspecting USIA plants in connection with inventories and stocks on hand to determine the volume of goods which are to be removed and the equipment which is to be removed or dismantled in the event of the conclusion of a peace treaty.
2. The Soviets, according to a report of 8 January 1949, are appraising the Siemens-Schuckert Engerthstrasse plant. The Soviets do not regard as plant property the additions and machinery which have been installed since 1945. The machinery and tools which were brought as captured enemy material from Germany or Czechoslovakia and installed at the Engerthstrasse are listed as Soviet property and rented to the plant at a monthly rate of 1 1/2% of the value of the machinery as assessed by the Soviets. Source believes that this procedure applies only to Soviet captured enemy material and not to plant equipment which has been purchased by USIA in Switzerland or elsewhere through compensation deals. Although USIA property, the equipment in the latter category is carried on the books as part of the plant inventory.
3. The system of renting equipment is thought by source to be a standard practice in Soviet-controlled Austrian industries. Therefore, many plants, apparently rebuilt or newly equipped, were actually re-equipped to a great extent with captured enemy material from USIA. ~~Comment:~~ For examples of Soviet investment in plants in Austria, ~~the~~ ^{His} 25X1A The allegation that the rental of captured enemy material equipment is standard practice, ~~the~~ ^{His} 25X1A view is evidently shared by the colleagues with whom he discussed the matter. While there is no particular reason ~~for this~~ ^{in this} 25X1A instance, there has been no further concrete example from other sources. It may therefore represent an isolated or infrequent occurrence.) ~~that~~ ^{that} the Soviets may consider that all equipment which was installed in Soviet-controlled plants as Soviet property, whether or not the new installations were

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CENTRAL INTELLIGENCE AGENCY

25X1A

-2-

captured enemy material or purchased in Austria or abroad. Upon releasing the plants to the Austrian economy, the Soviets may demand payment for this equipment, or offer to rent it to the plants; they may remove the equipment if their terms are not met.

4. In substantiation of his views, source offers the following background information on the situation:
- a. In 1945 and early in 1946, the Soviets stripped the Austrian plants of movable assets claimed as German war booty. When the Soviets inventoried the German assets in their zone of Austria in the spring of 1946, they considered that the figure of \$150,000,000 represented the value of the plants after they had been stripped of movable German assets.
 - b. After Easter 1946, the Soviets installed machinery in many USIA plants and repaired buildings, etc., in order to put the plants in production. The repairs and the new equipment were paid for by the firms through loans which were granted by the Soviet Military Bank. Some of this money was used to purchase equipment in western Europe. Some firms paid off their indebtedness through current profits; others, unable to complete payments, are still heavily indebted. When a USIA firm pays off debts to the Military Bank, the equipment so purchased belongs to the plant, but, since the plants are Soviet-controlled, the Soviets consider the machinery and other investments to be Soviet property.
 - c. Therefore, the Soviets may possibly claim the right to demand payment for all such investments and if payment is refused, they may remove the machinery and other movable property which was purchased while the plant was under Soviet control.
 - d. In addition to capital goods and equipment purchased through Soviet Military Bank loans, Soviet-controlled firms received valuable equipment on a rental basis from USIA. This equipment, usually first-rate, highly technical machinery of German or Czech origin, was shipped to USIA from Soviet captured enemy material depots in Germany or Austria. Many of these machines are of prime importance to the plants and their removal would seriously hamper production. This highly technical machinery is not sold outright to any USIA firm, but is always rented on a long term basis. It constitutes an important Soviet control factor in the plants concerned, since the Soviets could either threaten the removal of the machinery and paralyze production, or offer to sell it to the plants at exorbitant prices.
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5. The following is an example of USIA procedure:
- a. The Soviets ceased dismantling Optische Anstalt C.P. Goerz GmbH in 1946, after 80% of the machinery had been removed. In order to start production under USIA control, Goerz was given a list of plants and warehouses controlled by local komendatury in the Soviet Zone of Austria, where machinery could be secured. Goerz officials selected the machinery, which they were required to purchase from USIA at prices fixed by the Soviets. The prices were usually reasonable and, prior to the currency reform, Goerz had no trouble meeting its payments. Since the currency reform has gone into effect, Goerz has borrowed heavily from the Military Bank in order to cover investments and repairs, as well as purchase raw materials. At present, its debt totals more than 1,500,000 schillings, and Goerz has been forced to offer all plant machinery as collateral. The Soviets could therefore sell the Goerz plant as German property, but still retain ownership of the equipment.

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CENTRAL INTELLIGENCE AGENCY

25X1A

-3-



- b. All Goerz machinery installed since 1946 is from German-owned plants in Austria. The heavy German investments in Austrian industry during the latter part of the war created an ample reserve of captured enemy material on which USIA plants have been able to draw.
6. The Soviets are probably ready to agree to the \$150,000,000 figure for German assets, but this will represent the firms stripped as they were in 1946. As indicated above, they may also claim payment for all capital assets in the form of purchased equipment put into USIA firms while they were under Soviet control and demand payment or continued rental over a period of years for captured enemy material installed in the plants since 1945.

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